



guidelines also require that the contractor's price be reduced to reflect the federal income tax advantage to the federal government when work is contracted out.^{5/} To move an activity to the private sector, the total cost of performing work by contract must be less than the cost of in-house operations, and the savings must exceed an amount equal to 10 percent of the in-house personnel-related costs. The 10 percent margin required, referred to as the "conversion differential," recognizes the risks and disruptions that can occur when activities shift to contract. The hypothetical cost comparison provided in the following box illustrates some of the cost components covered by A-76 comparisons.

Not all commercial activities must undergo cost comparisons. In most cases, civilian agencies do not have to conduct a cost comparison in contracting out activities that employ the equivalent of 10 or fewer full-time workers. At DoD, a cost comparison is not required for activities employing 45 or fewer civilian workers. In other situations, cost comparisons may be waived at the discretion of agency officials. They may also be waived when statutes or regulations designed to assist small businesses and other firms apply, when contractors already provide the government with satisfactory service, and when the activity simply represents a change in requirements. Moreover, as described later in this chapter, other categories of activities are exempt from A-76's competitive process altogether. For such exempt activities, agencies may forgo both cost comparisons and contracting out.

Management Studies of In-House Performance

In-house costs included in A-76 cost comparisons must reflect the most efficient and effective federal performance of the activity under review. To win a contract, therefore, a private firm must beat the most efficient price at which the government can provide the service. To ascertain the most efficient price, A-76 requires agencies to conduct reviews of their management to determine possible improvements in organization, staffing, and operating procedures. (These reviews are often prepared in conjunction with a formal description of the activity under review, called the performance work statement, that agencies use as the basis for developing in-house cost estimates and for soliciting bids from private firms.) A supplement to A-76 provides guidance to agencies on conducting management studies and suggests formats for documenting results. OMB requires

5. The A-76 cost comparison handbook includes tax rates by industry for use in calculating income tax deductions. OMB has not yet issued revisions to reflect recent tax reform.

AN A-76 COST COMPARISON

In this comparison, simplified for purposes of presentation, contracting out would reduce federal costs by an estimated \$280,000. The activity would be slated for contracting out since the savings exceed the 10 percent conversion differential. (Dollar amounts are in thousands.)

In-house Performance Costs ^{a/}		Contract Performance Costs	
Personnel	1,095	Contract Price	1,250
Material and Supplies	215	Contract Administration	50
Overhead	<u>190</u>	One Time Conversion Costs	20
		Income Taxes	<u>-100</u>
Total	1,500	Total	1,220

Advantages of Contracting Out

Savings	280
Conversion Differential	110
Savings in Excess of Differential	170

SOURCE: Congressional Budget Office.

^{a/} Assumed to reflect cost reductions identified in management studies.





that management reviews, along with cost comparison and other A-76 information, be independently reviewed to verify fairness, accuracy, and completeness. Agency audit officials usually conduct these reviews.

In requiring management reviews, the government stands to gain from cost cutting improvements in operations even when activities remain in-house. DoD data for 1985 shows that improved management practices would reduce, by about one-fifth, the costs of commercial activities that won cost competitions with private firms and remained in-house. DoD managers report a variety of approaches to reducing the cost of providing commercial services, including combining functions to reduce supervisory requirements, consolidating facilities to reduce equipment and other costs, acquiring more productive equipment, and eliminating overgrading to reduce pay costs. 6/

A-76 sets forth no requirements for audits to determine if savings estimated from management reviews are actually achieved. To date, no governmentwide audit has been done. At the Department of the Navy, an audit of 15 A-76 reviews found that for all six activities that remained in-house, improvements in management had been fully carried out. 7/ The audit, by the Navy's Inspector General, covered a sample of A-76 actions completed from 1983 through 1985. The 15 reviews represented about 3 percent of all reviews the Navy had completed during that time.

CURRENT SERVICE CONTRACTING

A service contract is a relatively simple concept. Generally, it represents a contractual agreement that a private firm will provide services to a federal agency. The government compiles no data on the total value of contracts awarded to private firms as a result of cost comparisons and other procedures prescribed by A-76. Analysis of data from the Federal Procurement Data Center (FPDC), however, indicates widespread and growing use of private firms to provide A-76-type commercial services. 8/ New contracts and contract renewals

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6. For a discussion of techniques used to lower the cost of support services at military bases, see John Handy and Dennis O'Connor, "A-76 Competitions: 'How Winners Win'" *Defense Management Journal*, vol. 21 (Third Quarter, 1985).
 7. Auditor General of the Navy, *Fiscal Year 1986 Post Decision Commercial Activity Reviews* (Department of the Navy, December 1986).
 8. The Federal Procurement Data Center (FPDC) maintains an automated system of federal procurement information. By focusing on commercial-type service contracts, CBO totals exclude amounts for weapons and other product procurement. FPDC totals cover any multiyear contracts and renewals, thereby making interpretation of data difficult.

awarded to private firms by federal agencies increased, in constant 1983 dollars, about 10 percent over the three-year period from 1983 to 1985--from \$32.8 billion to \$36.0 billion (see Table 1).

These totals cover amounts for services typically considered for contracting out under A-76. Data, for example, show large increases in awards for maintenance, repair, and modification of equipment. FPDC data, however, do not specifically identify contracts resulting from agency efforts under A-76. In addition, totals may include amounts for services--such as those purchased on a one-time, noncontinuous basis--to which cost comparisons and other A-76 procedures do not apply. Because of these limitations, data should not be interpreted as providing an assessment of levels of effort under A-76. In particular, one must guard against attributing changes in contracting nondefense services to changes in levels of effort under A-76. In fact, civilian agencies complete few cost comparisons. FPDC does, however, provide an estimate of the extent of federal reliance on the private sector for commercial-type services.

Over the three-year period from 1983 to 1985, awards made by DoD increased more than those of nondefense agencies. Awards at DoD increased 17 percent, rising from \$17.3 billion in 1983 to \$20.2 billion in 1985. Two agencies account for almost all of the growth in awards for nondefense agencies--the Department of Energy (DOE) and the National Aeronautics and Space Administration (NASA). The growth in awards at DOE reflect increased contracting for nuclear and related research. At NASA, increases reflect growth in requirements for ADP maintenance, and for equipment maintenance for the Space Shuttle program.

TABLE 1. SERVICE CONTRACT AWARDS 1983-1985
(In billions of 1983 dollars)

	1983	1984	1985	Percent Increase 1983-1985
Defense	17.3	18.5	20.2	17
Nondefense	<u>15.5</u>	<u>15.7</u>	<u>15.8</u>	<u>2</u>
Total	32.8	34.2	36.0	10

SOURCE: Congressional Budget Office from data provided by the Federal Procurement Data Center.



POTENTIAL FOR ADDITIONAL CONTRACTING OUT

Despite the growth in service contracts over the past several years, federal agencies have far from exhausted the opportunities for contracting out. Estimating the total potential is difficult, however, given the uncertainties about which of the many and diverse activities conducted by the government would qualify as commercial under A-76 definitions.^{9/} One approach to estimating the level of commercial activity in government considers federal employment in commercial-type occupations. According to CBO calculations, full-time civilian employment in occupations likely to be engaged in providing commercial services totaled 1.4 million as of October 1985. (Data cover the Executive Branch, excluding the U.S. Postal Service.) This total covers a wide variety of white- and blue-collar occupations. Significant concentrations were evident in activities such as maintenance, installation, and operation of equipment (accounting for 12 percent of the estimated in-house commercial work force), as well as in general administration and support (34 percent of total). Engineering and medicine also account for a significant number of covered workers (each representing about 10 percent of total). About three-fifths of these workers support activities at DoD.

While such occupation-based estimates provide one way of assessing the extent of commercial activity in government, they most likely overstate the size of the commercial work force that agencies will consider for contracting out. Although CBO looked at occupations such as data transcribing and custodial work that typically support commercial activity, some workers in these occupations may support governmental activity not covered by A-76.^{10/} Data transcribers supporting commercial work such as library cataloging, for example, are indistinguishable from those supporting governmental activities such as basic research. More important, only a fraction of the estimated commercial work force is engaged in activities that will be shifted to contract or even subject to cost comparisons because of A-76 exemptions.

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9. A recent General Accounting Office (GAO) report surveying studies of the savings potential of contracting out cites seven different estimates of the number of commercial-type positions in government. They range from just over 200,000 to 1 million. See GAO *Federal Productivity, Potential Savings from Private Sector Cost Comparisons* (December 1986), p. 11.
 10. Major occupational groups excluded from the CBO estimate of the in-house commercial work force include program management and administration; personnel management; investigation and inspection; selected legal and related occupations such as contract representative, social insurance examiner, and IRS officer; selected engineering occupations; and financial management.

Inventories of agencies' commercial activities provide another perspective on the scope of federal work subject to the government's A-76 policy. Circular A-76 requires agencies to prepare inventories that list all their commercial activities. To date, however, few agencies other than DoD have prepared such inventories, and the DoD inventory is not exhaustive. DoD updates its inventory annually to expand coverage, to consider any changes in the eligibility of activities for contracting out, and to reflect the progress of operations through the A-76 process. DoD inventory data for 1985 show commercial activities covering the equivalent of about 380,000 full-time civilian jobs, which represent about 35 percent of the civilian work force at the department.^{11/} Another 160,000 full-time uniformed military jobs support commercial work at DoD. The civilian work force estimate derived from DoD's inventory represents only about half of the occupation-based estimate of DoD's commercial work force. Information from inventories, however, provides a catalogue of activities that will serve as a focus of agency A-76 efforts in the foreseeable future. If current levels of effort continued, it could take more than a decade to complete cost studies for activities in the 1985 inventory. Of course, many of the inventoried activities will not be likely to face cost competitions with private firms because of statutory and other exemptions.

Exemptions

Certain commercial activities involving large numbers of federal jobs are exempted from being contracted out by provisions in both A-76 and a number of statutes. By far, the exemptions covering the largest number of commercial jobs apply to specific agencies and activities.

At DoD, 275,000, or about three-quarters, of the 380,000 inventoried commercial jobs support activities that are exempt from contracting out. About 85 percent of these jobs fall under exemptions provided for by both provisions of A-76 and statutes that cover activities meeting national defense needs, such as maintenance and repair of combat equipment.^{12/}

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11. In DoD's inventory, a full-time job is the work done in a year on a full-time basis. Under such a reporting system, for example, the work done throughout the year by two half-time workers counts as one full-time job.
 12. See Office of Management and Budget Circular No. A-76 Paragraph 8b and 10 USC Section 2304 note. About three-quarters of the 275,000 estimate has been authenticated by Department of Defense review. DoD inventory data show large numbers of employees in commercial activities awaiting reviews of their eligibility for contracting out. CBO estimates assume that these activities would be determined to be exempt or nonexempt in the same proportion as activities already reviewed.



Other much smaller statutory exemptions at DoD apply to firefighters and to most guards. (The exemption covering guards expires in 1988.) The total DoD exemptions also include 30,100 jobs that A-76 allows to remain in-house because of the potential for delay and disruption, lack of a private-sector source, or higher costs in the private sector.

Among nondefense agencies, major exemptions apply to the Veterans Administration (VA), the General Services Administration (GSA), and the Department of Interior. According to CBO calculations, about 200,000 workers fall under such exemptions. The excluded VA positions, covered by provisions of both A-76 and certain statutes, support activities in hospitals and other health-care facilities and are intended to protect the quality of health services available to veterans.^{13/} They apply, however, to all jobs in medical centers including many incidental to direct patient care. At GSA, statutory exemptions apply to messengers, guards, elevator operators, and custodians.^{14/} At the Interior Department, statutory provisions exempt contracting out at the Bureau of Land Management, the Fish and Wildlife Service, and the National Park Service.^{15/}

THE DEBATE ON CONTRACTING OUT

Concern about budgetary implications is only one of many raised in the debate on contracting out. The debate has continued through successive revisions of the federal policy and has centered on such issues as fairness, quality, and accountability. The primary concern, however, has always been how best to obtain the services required by government, whether from private firms under contract or in-house from federal workers. Both sides in the controversy continue to muster largely anecdotal evidence in support of their case.^{16/}

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13. See Office of Management and Budget Circular No. A-76 Paragraph 8b and 38 USC Section 5010.
 14. As provided for in Continuing Appropriations, Fiscal Year 1987 (P.L. 99-591).
 15. See 43 USC Section 1457a.
 16. For further discussion of the case in support of contracting out, see James T. Bennett and Manuel H. Johnson, *Better Government at Half the Price* (Ottawa, Illinois and Ossining, New York: Caroline House Publishers, Inc., 1981). The case against contracting out is made by the American Federation of State, County and Municipal Employees in *Passing the Bucks* (Washington, D.C.: AFSCME, 1983).

The A-76 policy is based in part on the principle that the government should avoid providing goods and services that are available from private firms. In so doing, according to this view, the government encourages the kind of initiative and competition that strengthens private-sector markets. Federal policy also reflects the belief that competition among private firms for federal contracts will result in the government obtaining better quality services for less cost.

Proponents of contracting out--which include contractors, trade associations, and some senior federal officials--believe that the savings potential of contracting out gives the government a chance to control its costs without having to reduce services. Contracting out, its adherents argue, enhances management flexibility for several reasons: it avoids complex civil service rules, and it addresses requirements for part-time work and for specialized staff and equipment without having to increase permanent employment. While acknowledging the occasional problems caused by poorly prepared cost comparisons and bad contractors, proponents believe such occurrences are not arguments against contracting out, but arguments for better management and oversight of contractor performance.

Critics of contracting out--which include public employee organizations and some federal managers--marshal a variety of arguments against the practice. Public employee organizations view contracting out as a backdoor device for doing away with federal jobs. They argue that changes in the size of the work force or its compensation should be made directly through pay and program reform. Some critics argue that the savings from contracting out are bought at the price of making the government party to substandard employment practices in certain firms. They also believe that when agencies contract out, they are substituting work performed by experienced and loyal employees for work performed by private firms that may employ inexperienced workers and that may have loyalties torn by the competing demands of agencies, other customers, and boards of directors. Moreover, critics maintain, shifting work to contract can lower employee moral and disrupt normal operating procedures.

Quality, Control, and Accountability

Notable among the critics of contracting out are federal managers, who express concern that, despite potential savings, contracting out can cause a serious decline in the quality of services. Unfortunately, few systematic, comprehensive reviews of service quality under contracting out have been



done.^{17/} The literature is replete, however, with anecdotes describing the bitter experience of some agencies with contract services. Problems can arise because contractors, in an effort to reduce their costs, may use inexperienced or transient workers, reduce supervision, or ignore contract requirements. Managers note that the ability of an agency to carry out basic program responsibilities can be threatened by business failure and strike action--occurrences not typical of government operations--as well as by the loss of control and accountability that can accompany turning service performance over to outsiders. Problems of control and accountability can be particularly acute when contract services are conducted at locations far from agencies and where the number and variety of contractors make oversight difficult. Statutory limitations on contracting out for medical services and for certain national defense functions were enacted, in part, out of such concerns.

Critics of these two restrictions counter that the success of a wide range of health-care and defense-related activities by private firms is evidence that restrictions are not necessary. DoD military hospitals, for example, contract out for a variety of medical activities, including ambulance service, nutritional care, medical supply services, and outpatient care.

Cost Increases and Cost Comparisons

Critics also argue that contracting out, rather than saving money, can often result in higher costs. They express concerns about cost increases that occur after the job has been contracted out--increases of the sort that would not occur if activities were kept in-house. For example, when contractors fail to provide the level or quality of service for the price agreed to, agencies may have to undergo costly procedures to replace contractors or renegotiate contracts, although failures that lead to such procedures are not always the contractors' fault. In some cases, recompetition or renegotiation of contracts may occur because of errors or ambiguities in agency descriptions of the work required from contractors. Some evidence exists to support such concern, but nothing that suggests as

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17. A 1985 RAND study addressed the question of the quality of vehicle maintenance services at seven Air Force bases. Comparing the rates at which vehicles were out of service, the RAND study concluded contract and in-house vehicle maintenance operations performed equally well. On the other hand, an analysis of interview data permitted the authors to draw no firm conclusions about the effects of A-76 procedures on quality. See Ross M. Stolzenberg and Sandra H. Berry, *A Pilot Study of the Impact of OMB Circular A-76 on Motor Vehicle Maintenance Cost and Quality in the U.S. Air Force* (Santa Monica: RAND, 1985).

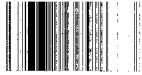
severe a problem as some critics contend. A 1985 General Accounting Office review of 20 conversions to contract at DoD found subsequent increases in the cost of contract operations in all but one case. Many of the increases, however, would have occurred even had the activities remained in-house, and savings were still realized for 17 of the activities.^{18/} A more comprehensive DoD review, described in the Appendix, found substantial savings from contracting out despite subsequent small cost increases in some cases.

A related concern raised by both proponents and critics of contracting out pertains to the validity of the cost comparison guidelines prescribed under supplements to A-76. Those on both sides of the A-76 debate feel that the guidelines are unfair and bias decisions for or against contracting out, depending on their perspective. OMB periodically reviews its cost comparison procedures, however, and over the years it has attempted to address major concerns about the program. For example, in revisions since 1983, OMB responded to criticism that the method prescribed for estimating federal retirement costs had become outdated by requiring the use of more recent data from the Office of Personnel Management (OPM). OMB also addressed a concern about the cost and complexity of its procedures by simplifying some costing methodologies and by waiving cost comparison requirements for small activities. It also made changes to account more fully for the costs of compensation available to federal workers who are laid off when work shifts to private firms.

A 1985 study conducted by Management Analysis Incorporated for the Small Business Administration largely supports current procedures. The study measured the validity of A-76 cost comparison guidelines against accepted economic and accounting principles.^{19/} It concluded that, with the exception of the method prescribed for estimating contract administration costs, the comparison guidelines provide a reasonable basis for estimat-

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18. General Accounting Office, *DoD Functions Contracted Out Under OMB Circular A-76: Contract Cost Increases And the Effects On Federal Employees* (April 1985). The GAO study covered a judgmental sample of cost comparisons and, in the absence of more detailed information, assumed pay increases granted to contract workers after conversion did not reduce savings.
 19. Management Analysis, Inc., *Comparison of the Costs of the Government Versus the Private Sector in Providing Goods and Services to the Government* (Vienna, Virginia: Management Analysis, 1985).





ing costs.^{20/} Nevertheless, debate continues about estimating procedures for various cost components. Concern arose recently about legislatively mandated procedures for estimating costs of the new retirement system created by the Federal Employees' Retirement System Act of 1986.^{21/} The new system covers federal employees hired beginning in January of 1984 and other employees who may elect to join. OMB halted contracting out from June through October 1986, while it revised cost comparison guidelines to comply with specific requirements of the Federal Retirement Act. As described in the Appendix, cost factors specified in revised guidelines, to be consistent with specific legislative requirements, slightly understate federal costs and can somewhat distort cost comparison decisions.

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20. The A-76 cost comparison handbook provides a table with standardized cost estimates for contract administration that agencies may use in preparing cost comparisons. The costs provided vary by size of the work force engaged in the activity under review. The study by Management Analysis Incorporated suggested the use of costs that more accurately reflect the actual resources devoted to contract administration. A-76 guidelines, however, permit the use of alternative cost estimates when they more accurately reflect actual costs.
 21. The Federal Employees' Retirement System Act of 1986 (Public Law 99-335) requires the use of certain A-76 cost factors in Title II, Section 307.

CHAPTER II

COST REDUCTIONS UNDER THE CURRENT PROGRAM

Under current levels of effort, the government's contracting out program and the management reviews associated with it offer the potential for large economies to the government. Near-term cash savings, however, are considerably smaller than total economies that would be ultimately achieved. This chapter provides estimates of total economies, measured on an accrual basis, and near-term cash reductions.

CBO'S ESTIMATING PROCEDURES AND BASIC ASSUMPTIONS

The estimates in this chapter represent the amounts by which agencies could reduce the operating cost for ongoing in-house activities that are subject to cost comparisons. Additional economies, beyond the scope of this report, may result from decisions to use contract over in-house workers for new requirements, and from other management initiatives to increase both efficiency and reliance on private-sector services. 1/

In reducing operating costs by improving management and contracting out under A-76, agencies free up resources that may reduce deficits or that may, through reallocation, offset other program costs. At DoD, savings under the A-76 program would almost certainly fulfill other obligations. A-76 reviews, for example, often result in the freeing up of uniformed personnel to pursue activities more distinctly military in nature. If the Congress wishes, it could place greater emphasis on the A-76 program for budget reduction. Legislation has already been introduced, for instance, that would return savings from A-76 to the U.S. Treasury. 2/

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1. Management improvements of federal operations and contracting out sometimes occur without cost comparisons. For example, agencies may conduct management reviews for activities exempt from contracting out or for activities covered by the Administration's productivity improvement program--an effort separate from A-76. Agencies may also directly contract out certain small activities. Because the number of direct conversions is uncertain and cost comparison data is lacking, a precise impact of direct conversions cannot be ascertained.
 2. S. 909 proposes that agencies pay into the general fund of the Treasury amounts saved as a result of contracting out.



Basis for CBO Estimates

Developing estimates of savings available under the A-76 program is difficult, given uncertainties about the number and outcome of A-76 reviews that agencies will conduct in the future. In preparing its estimates, CBO relied heavily on DoD's experience. Among federal agencies, DoD has had the most extensive and well documented A-76 program, while experience and information for other agencies is limited or nonexistent.

CBO's estimates assume that about 65 percent of the activities reviewed annually under A-76 will be contracted out and that savings for those activities will average 35 percent of in-house costs. For activities that remain in-house, CBO's estimates assume that management improvements will reduce costs, on average, by 20 percent. These averages are consistent with recent DoD experience (see Appendix). Moreover, they take into account some events, such as retirement reform, that now influence the outcome of A-76 reviews.

DoD's average savings under A-76 has been fairly stable over the past several years (see Appendix Table). To find other trends that might help predict future results, CBO examined detailed data on about 180 reviews completed in 1984 and 1985; it found none.^{3/} In making projections on the basis of past experience, CBO assumes agencies will continue to find activities that can generate substantial savings when subjected to A-76 review. Certainly, nondefense agencies have only begun to consider the large numbers of activities eligible for A-76 review. At DoD, as previously noted, agency officials continue to revise and update their inventory as new commercial activities are identified. Moreover, data suggest that DoD has large employment in occupations with activities that traditionally generate substantial savings when subjected to A-76 review. In five occupations alone--ADP, audio-visual production, food preparation and serving, laundry service, and custodial work--DoD employed about 70,000 full-time workers as of October 1985.

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3. CBO performed statistical tests to ascertain if the geographic location of an activity or the type of activity had any bearing on the percentage of savings realized. The results were essentially negative, which is not especially surprising in view of the highly decentralized administration of the program. Even if meaningful patterns had been identified, they would be of questionable value in predicting the outcome of future A-76 activity, given uncertainties about the composition of agency inventories and the nature of activities that agencies will select for review.

CBO applied the average savings and conversion rates it derived from DoD data to estimates of in-house costs. It assumed agencies will conduct reviews of activities covering the equivalent of 10,000 full-time jobs--7,000 at DoD and 3,000 at non-DoD agencies. Details concerning the derivation of the in-house costs of these activities and CBO's analysis of DoD A-76 data are provided in the Appendix.

POTENTIAL COST REDUCTIONS UNDER THE A-76 PROGRAM

Contracting out and management improvements under the government's A-76 program can substantially reduce both the near- and long-term costs of government operations. When an activity is contracted out, for example, the government realizes cash savings in retirement costs years later when employees in the activity would have retired and begun to collect pensions.

Accordingly, CBO prepared two sets of estimates of the savings potential of the A-76 program, one representing near-term cash savings and another measuring savings on an accrual basis. Under accrual accounting, costs are assigned to the period they are incurred, regardless of when cash disbursements actually take place. Accrual estimates thus provide a measure of the total potential savings to the government even though part of that savings may not take the form of lower cash disbursement for many years. In fact, A-76 guidelines require accrual accounting for costs.

Potential Cost Reductions on an Accrual Basis

On an accrual basis, CBO calculates that the annual in-house cost of the activities undergoing A-76 reviews over the next five years will be about \$440 million per year (in 1988 dollars). Under CBO estimating assumptions, 65 percent of the 10,000 full-time jobs covered by the activities reviewed each year would shift to private firms, and management improvements would free up another 700 jobs. As a result, federal costs would fall by about 30 percent or \$130 million per year (full-year impact in 1988 dollars; see Table 2). At DoD, some 5,040 jobs could be freed up every year, reducing annual in-house costs of \$310 million by \$90 million. Uniformed personnel in commercial activities at DoD would represent almost three-fifths of the labor resources saved by A-76. Savings for nondefense agencies would total \$40 million. These smaller cost reductions for nondefense agencies primarily reflect less A-76 activity.

According to CBO estimates, contracting out alone could reduce the annual cost of activities reviewed by about \$100 million, an amount equal to





about 35 percent of what it costs to run the contracted activities in-house. (At DoD, annual savings just from contracting out total an estimated \$70 million.) For activities remaining in-house after a comparison of costs, management improvements could reduce costs on average by about 20 percent, or \$30 million.

TABLE 2. REDUCTIONS IN ACCRUAL COSTS FROM ONE YEAR'S A-76 ACTIVITY UNDER CURRENT LEVELS OF EFFORT
(Full-year effects in millions of 1988 dollars)

	Activities Remaining In-house	Activities Contracted Out	Total
Annual Accrual Cost of Activities Reviewed			
All Activities	155	285	440
Defense	110	200	310
Nondefense	45	85	130
Savings			
Management Improvements			
All activities	30	0	30
Defense	20	0	20
Nondefense	10	0	10
Contractor Operation			
All activities	0	100	100
Defense	0	70	70
Nondefense	<u>0</u>	<u>30</u>	<u>30</u>
Combined Impact			
All activities	30	100	130
Defense	20	70	90
Nondefense	10	30	40

SOURCE: Congressional Budget Office.

NOTE: Figures rounded to nearest \$5 million.